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MONTANA
DEPARTMENT of
AGRICULTURE

MONTANA Agricultural Finance $ummary

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The problem of agricultural credit and the depressed agricultural economy is a major issue of deep concern to farmers and ranchers, agricultural leaders and lending institutions in the state of Montana. The 1984 drouth and other natural disasters have created additional financial stress.

This publication provides a summary of two surveys that were conducted to help identify the extent and severity of agricultural credit problems in Montana.

SURVEY PROCEDURE

We mailed questionnaires asking about farm credit to about 1,500 farmers, all 175 commercial banks, the Farm and Home Administration (FmHA), Production Credit Associations (PCAs), and Federal Land Banks (FLBs). Non-respondents were contacted by telephone

RESULTS OF FARM OPERATOR SURVEY

Results of the farm operators survey show that 18 percent of Montana farmers are delinquent on real estate loan payments. A breakdown shows that about half of those have been able to stay current on interest payments only. The delinquency rate is somewhat higher among farms of less than a thousand acres, averaging 25 to 29 percent.

ONLY 7 OUT OF 10 CURRENT ON OPERATING LOANS

For non-real estate or loans used to purchase operating equipment and supplies 31 percent of the state's farmers are delinquent in their payments. However, 61 percent of those are current on interest payments only. All sizes of operations seem to be having trouble keeping current on operating loans, but those under 1,000 acres in size are running above average on delinquency, while those between 1,000 and 2,000 acres are below average.

LOAN DELINQUENCY RATE BY SIZE OF FARM

SIZE OF FARM	REAL ESTATE LOANS DELINQUENT	NON-REAL ESTATE LOANS DELINQUENT
-Acres-	--------Percent--------	
499 or Less	25.0	31.8
500-999	28.6	37.5
1,000-1,999	14.3	24.5
2,000-2,999	18.8	34.1
3,000-4,999	13.6	32.1
5,000-9,999	8.6	31.8
10,000 +	12.7	28.3
STATE TOTAL	17.6	30.6

Interest rates averaged 10.4 percent for real estate and 13.9 percent for non-real estate loans. Six percent of the survey respondents had been denied credit between January and September 1984. About 4 out of 10 were able to obtain credit elsewhere.

(Continued on Inside page.)

DEBT TO ASSET RATIOS ON THE RISE

The debt to asset ratio measures the economic health of the farming and ranching business. A comparison of debt to asset ratios from 1979 to 1984 shows a steadily worsening financial balance sheet for Montana farmers. The average debt to asset ratio based on results of this survey was 28.2. This means the average farm debt was 28.2 percent of total farm assets. This statistic isn't alarming in itself, but closer examination of the data shows that 24 percent of those surveyed had ratios exceeding 50 percent and 7 percent reported debts exceeding 70 percent of assets.

OTHER FACTS ABOUT DEBT TO ASSET RATIOS:

- --Ratios were highest in the south central and eastern districts of Montana.
- --Farms with higher gross income had higher ratios than lower income groups.
- --Farmers who are over 54 years of age had significantly lower debt/asset ratios.
- --Farms smaller than 1,000 acres have higher debt to asset ratios.
- --Mostly crop and mostly livestock types of operations have higher debt to asset ratios than 'pure' cash grain or livestock farms.

FORTY-FIVE PERCENT WON'T SURVIVE OVER 5 YEARS

Assuming current trends in farm income and expenses, only 55 percent of Montana's farmers and ranchers will be able to stay in business over 5 years. Over 9 percent say they can only survive one more year, but 48 percent will farm until they retire.

When asked about the major cause of farm problems today, the number one answer was low market prices followed by high interest rates. Lenders often said lack of management knowledge and skills was a major problem.

MONTANA FARM NUMBERS, ASSETS and DEBT COMPARISONS

YEAR	NUMBER OF FARMS	AVG. VALUE PER ACRE	AVG. FARM ASSETS	AVG. TOTAL DEBT	DEBT/ASSETS DEBT
		(Dollars)	(Thousand Dollars)		(Percent)
1979	23,700	195	677,004	118,873	17.6
1980	23,800	227	780,475	138,832	17.7
1981	23,900	232	813,603	150,615	18.5
1982	24,000	254	846,829	166,970	19.7
1983	24,000	236	812,329	179,250	22.1
1984	24,000	N/A	769,114	216,854	28.2

SOURCE: 1979-1983 from: USDA, Economic Research Service; 1984 from: Survey of Montana Farmers, October 1984.

WHAT IS THE MAJOR CAUSE OF FARM PROBLEMS TODAY?

	ALL FARMERS & RANCHERS	CASH GRAIN	LIVESTOCK PRODUCERS	COMMERCIAL BANKS	FmHA	PCAS	FED LAND BANK
				--Percent--			
Bought Land Too High	3.7	3.1	4.3	5.0	--	--	--
High Cost of Equipment	12.9	15.2	13.7	6.3	--	--	--
High Interest Rates	22.3	19.9	23.1	17.5	50.0	10.0	13.3
Government Farm Programs	4.8	3.6	6.7	2.5	--	--	--
High Input Costs	10.0	7.6	9.8	6.2	--	30.0	6.7
Low Market Prices	36.0	36.9	33.1	39.4	--	60.0	40.0
Natural Disasters	8.7	11.5	8.9	6.9	20.0	--	20.0
Other 1/	1.6	2.1	8.4	16.2	30.0	--	20.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Poor management, over-mechanized and all other.

FmHA, PCA and FLB STATISTICS

The overall quality of the farm and ranch loan portfolio from offices of these three lending institutions is generally lower compared with the same period a year ago. Low market prices were cited as the main cause of farm problems today, followed by high interest rates, poor management and natural disasters.

The reason most cited why borrowers fail to qualify for financing is inadequate income prospects. Refusal rates for both real estate and non-real estate loan approvals has been running about 6 percent higher than normal. The number of farm and ranch borrowers who were financed last year, but will not qualify for financing this year is only slightly higher for FmHA and FLB offices, but is about 6 percent higher for the PCA offices.

The FmHA real estate loans held had the highest percent of delinquency at 40 percent while the FLBs had only a 2 percent delinquency rate. The PCA delinquency rate for non-real estate loans was about 7 percent.

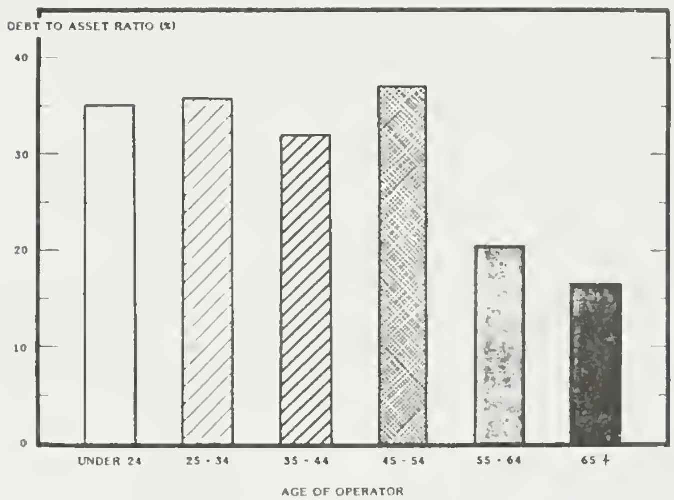
Generally, non-farm or off-farm income has become a more important item in securing farm loans from these lending institutions.

	FED LAND BANK	FmHA	PCA
	--Number--		
Loans	8,427	3,549	4,557
	--Percent--		
Real Estate Loans	100	34	--
Non-Real Estate Loans	--	36	100
Loans Delinquent	2	40	7
Real Estate Loans Delinquent January 1:	--Number--		
1981	261	449	--
1982	339	901	--
1983	333	1,673	--
1984	366	1,874	--
Non-Real Estate Loans Delinquent January 1:			
1981	--	282	67 1/
1982	--	401	103 1/
1983	--	768	84 1/
1984	--	921	112 1/

1/ Data not complete for 3 PCA offices.

MONTANA

FARM DEBT TO ASSET RATIO BY AGE OF OPERATOR



MONTANA FARM ECONOMIC INFORMATION
BY CROP REPORTING DISTRICTS (Average per Farm)

ITEM	CROP REPORTING DISTRICT							
	N WEST	N CENTRAL	N EAST	CENTRAL	S WEST	S CENTRAL	S EAST	STATE
Assets ($000)	576	794	599	894	1,122	878	707	769
Liabilities ($000)	114	198	181	265	313	289	238	217
Debt to Asset Ratio (%)	19.8	25.0	30.2	29.6	27.9	32.9	33.7	28.2
Interest Paid in 1983 ($000)	15	19	21	24	28	33	25	22
Average Interest Rate Paid For:								
--Real Estate (%)	10.2	10.7	10.7	10.4	10.4	10.2	9.0	10.4
--Non-Real Estate (%)	15.0	13.7	14.0	14.0	13.2	14.0	13.5	13.9
Income From Non-Farm Sources (%)	29.3	11.2	17.9	24.8	28.3	18.8	11.8	18.6
Real Estate Loans Delinquent (%)	13.5	16.0	34.4	11.9	16.3	10.4	12.4	17.6
Operating Loans Delinquent (%)	25.3	30.8	36.6	30.4	38.4	26.3	26.5	30.6
TIME FARM OPERATOR EXPECTS TO STAY IN BUSINESS UNDER CURRENT ECONOMIC CONDITIONS:								
				----Percent----				
1 Year	8.6	9.5	8.3	11.3	7.1	7.4	10.6	9.4
2 - 5 Years	37.1	35.8	38.6	29.9	42.9	27.8	37.9	35.1
6 - 10 Years	8.6	8.0	5.2	6.2	7.1	5.6	15.1	7.8
Until Retirement	45.7	46.7	47.9	52.6	42.9	59.2	36.4	47.7

RESULTS OF BANKER'S SURVEY

Questionnaires were mailed to all 175 commercial banks in Montana. Total returns including those collected by phone were 119, or 68 percent of the total contacted. Out of the 119 returns, 96 or 81 percent handled either farm real estate or farm operating (non-real estate) loans. Twenty-three or 19 percent of those returning questionnaires had no farm loan business.

MORE OPERATING LOANS REFUSED THAN NORMAL

Since January 1, 1984 an average of 38 loans per bank were submitted for formal loan approval. About 31 percent of the real estate loans were refused compared with a normal reported average of 34 percent. Non-real estate loan applications are a different story. Twenty-seven percent of the operating loans were refused compared with a normal of 21 percent.

FEWER QUALIFYING FOR FINANCING THIS YEAR

Seven percent of the farmers that obtained financing last year won't qualify this year. This normally runs less than three percent. The reason named by 63 percent of the bankers was inadequate income prospects, with 23 percent turned down due to insufficient equity.

REASONS FARM BORROWERS FAIL TO QUALIFY FOR FINANCING

1) INCOME PROSPECTS INADEQUATE:	63%
2) BORROWER'S EQUITY INSUFFICIENT:	23%
3) HISTORY OF POOR MANAGEMENT BY OPERATOR:	9%
4) OTHER:	5%
	100%

Over 70 percent of the dollar value of farm loans currently held by commercial banks is for operating expenses. Twelve percent of the loan dollars are for intermediate-term debt, while 8 percent are for refinancing short or intermediate-term debt.

When asked about the importance of off-farm income in securing a farm loan, 65 percent said it had become more important, 35 percent said it hadn't changed, and none rated it less important.

DELINQUENCY RATE and FORCLOSURES HIGHER

About 4 percent of both real estate and operating loans held by Montana banks are delinquent. Since banks held only about four real estate loans per bank, the number of delinquent loans on land was also very low but had more than doubled since 1981. Out of an average of 88 operating loans per bank, bankers reported an average of four delinquent non-real estate (operating) loans per bank--about double the 1981 count. The number of forclosures in 1984 averaged less than one for every three banks, but has climbed steadily and is now five times higher than in 1981. In addition, nearly two operating loans per bank are being considered for forclosure.

Voluntary farm liquidations averaged less than one per bank during 1984, but was eight times higher than in 1981.

QUALITY OF FARM LOANS HAS DECLINED

Fifty-four percent of the bankers rated their farm loan portfolios lower in quality than a year ago, 43 percent said the quality hadn't changed, and 3 percent rated the quality higher. Sixty-one percent of the bankers rated the farm loan quality about the same as all other business loans, but 30 percent said quality was lower and 9 percent ranked farm loans higher.

The bankers ranked low market prices as the number one cause of today's farm problems, followed by high interest rates.

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MONTANA DEPARTMENT OF COMMERCE